Cross-border payments and the global financial safety net

G-24 TECHNICAL GROUP MEETING
BUILDING RESILIENCE TO MEET GLOBAL CHALLENGES

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GFSN and 21st century challenges

- Privatization, offshorization, financiarization (BOP financial account)
- Weaponization, segmentation

- Energy transition
- Digitalization, inclusion

Global Financial Safety Net: key principles

- What is “international liquidity”? Where does it come from?
  - Official reserve assets only?
    Only certain currencies? Gold, SDR, dollars.
  - Balance of payments? Or is it mostly fiscal?
  - Private correspondent banking and cross-border payments.
    - Used to go through central banks.
- Endogeneity: international liquidity = liabilities of reserve-currency-issuing-country banks
  - Terms of trade
  - Foreign-debt

Centralization of payments = liquidity dependence

Megabanks: main creators of international liquidity

Category	Megabanks
4	JP Morgan Chase
3	Citigroup, Deutsche Bank, HSBC
2	Bank of America, Bank of China, Barclays, BNP Paribas, Goldman Sachs, Industrial and Commercial Bank of China Limited, Mitsubishi UFJ FG, Wells Fargo
1	Agricultural Bank of China, Bank of New York Mellon, China Construction Bank, Credit Suisse. Groupe BPCE, Groupe Crédit Agricole, ING Bank, Mizuho FG, Morgan Stanley, Royal Bank of Canada, Santander, Société Générale, Standard Chartered, State Street, Sumitomo Mitsui FG, UBS, Unicredit Group

International Investment Position: illiquid states, liquid elites

- 5 examples:

  Argentina, Ukraine, Ecuador, Egypt, Ghana

Argentina:

Elites' foreign liquid assets = 53.1% of GDP

Official reserves = 3.5% of GDP

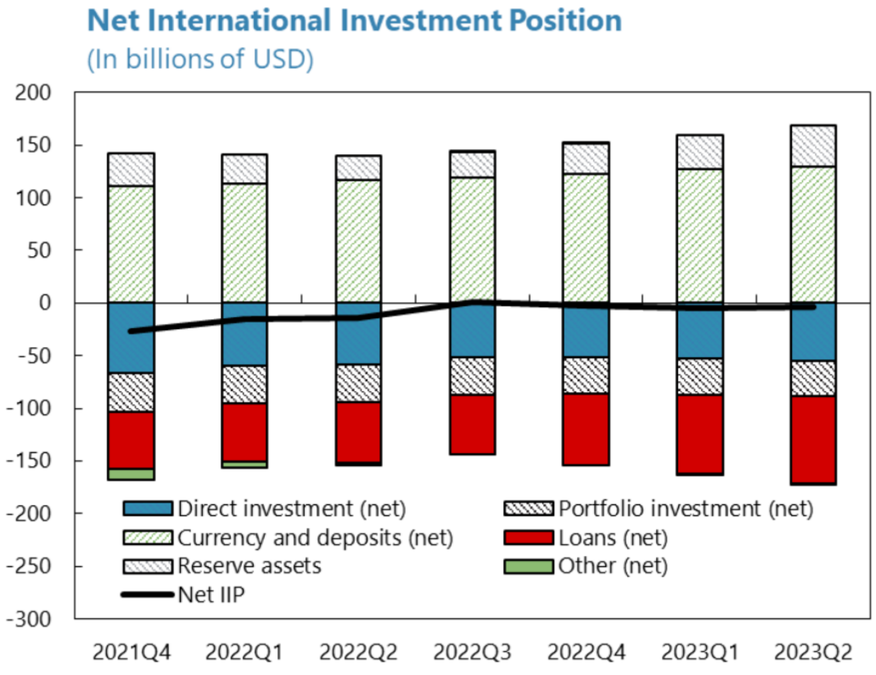
Table 11. Argentina: International Investment Position, 2018–2023

	In millions of US dollars						In percent of GDP					
	2018	2019	2020	2021	2022	2023 Q3	2018	2019	2020	2021	2022	2023 Q3
Net IIP	**65,630**	**113,155**	**121,925**	**122,247**	**116,019**	**81,522**	**12.6**	**25.7**	**32.1**	**25.4**	**18.5**	**12.5**
Direct Investment	-30,362	-27,630	-44,386	-57,438	-71,878	-91,778	-5.8	-6.3	-11.7	-11.9	-11.5	-14.1
Equity and Investment Fund Shares	-6,626	-4,697	-12,505	-25,150	-31,951	-40,342	-1.3	-1.1	-3.3	-5.2	-5.1	-6.2
Debt Instruments	-23,735	-22,933	-31,881	-32,288	-39,927	-40,735	-4.5	-5.2	-8.4	-6.7	-6.4	-6.3
Portfolio Investment	-52,404	-2,548	11,641	18,685	25,970	19,670	-10.0	-0.6	3.1	3.9	4.1	3.0
Equity and Investment Fund Shares	22,433	31,840	37,919	47,267	35,911	28,237	4.3	7.2	10.0	9.8	5.7	4.3
Debt Securities	-74,838	-34,388	-26,278	-28,581	-9,940	-8,567	-14.3	-7.8	-6.9	-5.9	-1.6	-1.3
Financial Derivatives	-1,296	-543	-128	-397	-339	-339	-0.2	-0.1	0.0	-0.1	-0.1	-0.1
Other Investment	83,906	99,028	115,411	121,735	117,667	130,896	16.1	22.5	30.4	25.3	18.7	20.1
Other Equity	3,074	3,223	3,364	3,520	3,684	3,870	0.6	0.7	0.9	0.7	0.6	0.6
Debt Instruments	80,832	95,805	112,047	118,215	113,983	127,025	15.5	21.7	29.5	24.5	18.2	19.5
Reserve Assets	65,786	44,848	39,387	39,662	44,598	23,073	12.6	10.2	10.4	8.2	7.1	3.5
Assets	**377,521**	**397,180**	**399,135**	**417,768**	**424,777**	**416,187**	**72.2**	**90.1**	**105.1**	**86.7**	**67.7**	**63.9**
Direct Investment	42,228	42,828	40,985	42,452	44,832	47,169	8.1	9.7	10.8	8.8	7.1	7.2
Equity and Investment Fund Shares	42,228	42,828	40,985	42,452	44,832	47,169	8.1	9.7	10.8	8.8	7.1	7.2
Debt Instruments	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio Investment	60,789	69,294	70,388	80,693	73,550	70,921	11.6	15.7	18.5	16.7	11.7	10.9
Equity and Investment Fund Shares	33,370	39,500	41,676	51,600	41,512	41,461	6.4	9.0	11.0	10.7	6.6	6.4
Debt Securities	27,419	29,794	28,712	29,093	32,038	29,460	5.2	6.8	7.6	6.0	5.1	4.5
Financial Derivatives	13	11	17	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	208,705	240,198	248,358	254,961	261,795	275,024	39.9	54.5	65.4	52.9	41.7	42.2
Other Equity	3,074	3,223	3,364	3,520	3,684	3,870	0.6	0.7	0.9	0.7	0.6	0.6
Debt Instruments	205,631	236,975	244,994	251,441	258,111	271,154	39.4	53.8	64.5	52.2	41.1	41.6
Reserve Assets	65,786	44,848	39,387	39,662	44,598	23,073	12.6	10.2	10.4	8.2	7.1	3.5

Ukraine:

Elites’ foreign liquid assets = 88% of GDP

Official reserves = 17% of GDP

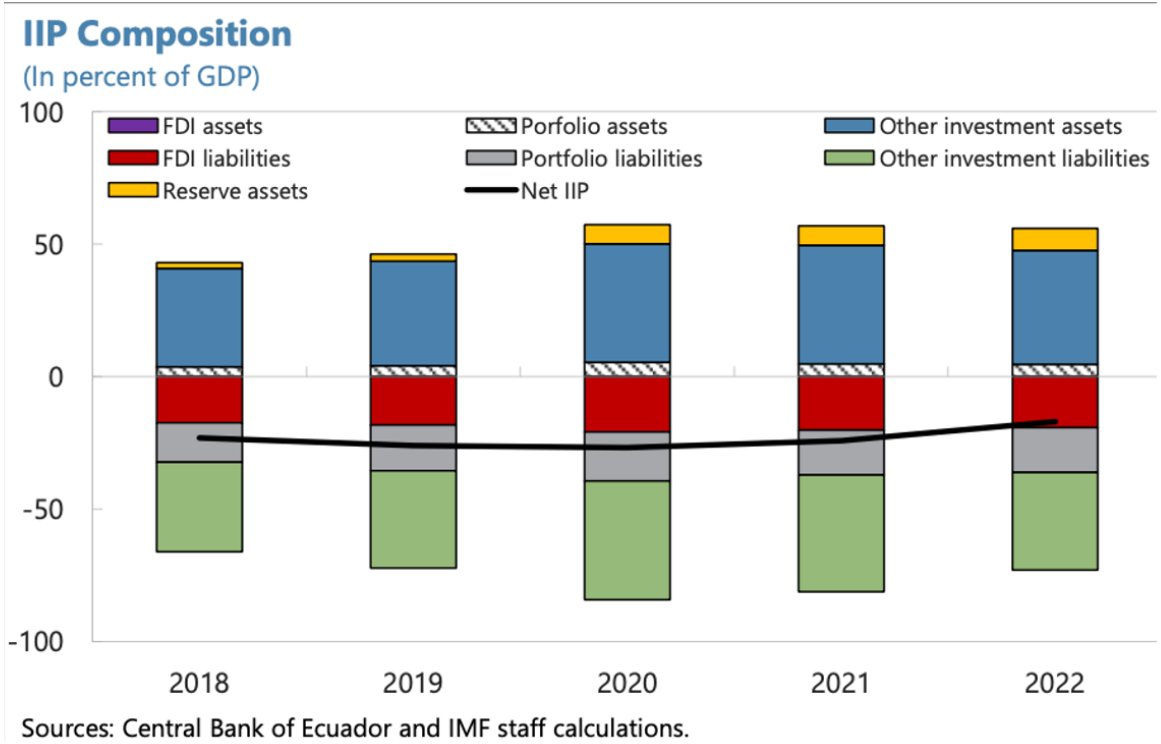


Source: National Bank of Ukraine and IMF staff calculations

Ecuador:

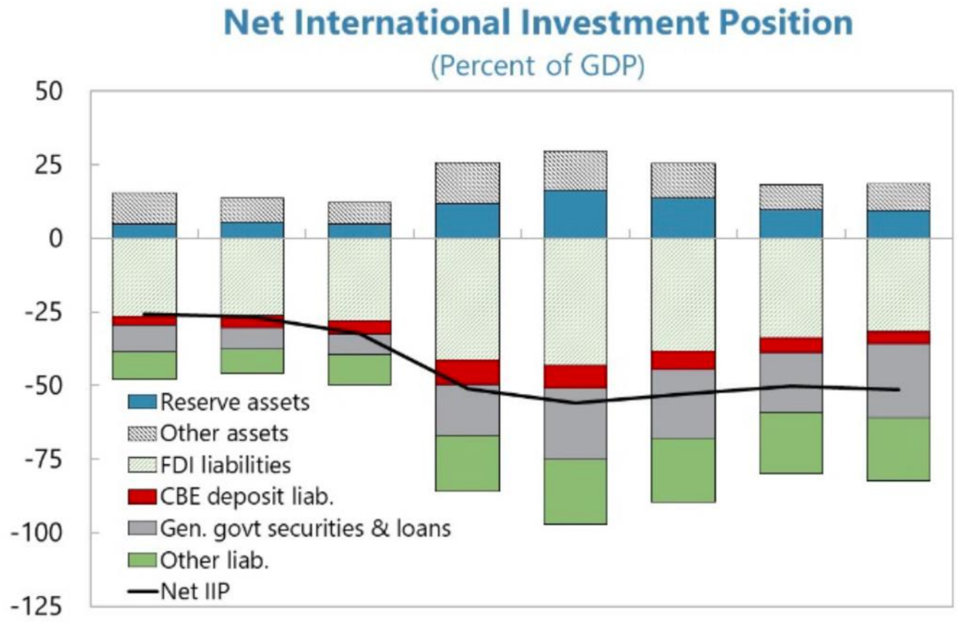
Elites' foreign liquid assets = 47% of GDP

Official reserves = 8% of GDP



Egypt:

Elites' foreign liquid assets = 7% of GDP
Official reserves = 8% of GDP



Sources: Haver Analytics, IMF Staff Calculations

Ghana:

Elites' foreign liquid assets % of GDP

Official reserves = 3% of GDP

Foreign Assets and Liabilities: Position and Trajectory

Background

- **The external assets and liabilities position deteriorated in 2022.** Although external debt remained virtually flat at 48 percent of GDP in 2022, gross foreign exchange reserves fell from 9.9 in 2021 to 2 percent of GDP (0.7 months of prospective imports) on the back of large capital outflows, difficulties in rolling over central bank FX liabilities and reserve drawdowns, suggesting a weaker external financial asset-liability balance (Ghana does not report NIIP statistics).[1]
- **The external position improved in 2023H1 and is expected to strengthen further over the medium term.** Gross reserves have increased in the first half of the year to reach 3.1 percent of GDP, equivalent to 1.0 month of prospective imports, on the back of a stronger current account and lower FX interventions. Over the medium term, gross reserves are projected to continue increasing to reach 9.2 percent of GDP in 2027, equivalent to 3.5 months of prospective imports, while external debt is projected to follow a downward path—after peaking at 55.6 percent of GDP in 2024—to hover around 53 percent of GDP in 2027, reflecting lower financing needs as the fiscal consolidation and growth-enhancing structural reforms start bearing fruit. The ongoing external debt restructuring should bring external debt further down.

[1] Gross reserves refer to headline official reserves, excluding foreign assets held by Ghana Petroleum and Stabilization Fund and encumbered and pledged assets as per IMF-supported program definition.

External Sector Statistics: The Balance of Payments Office (BPO) of the Research Department of the BOG is responsible for the compilation and dissemination of balance of payments and International Investment Position (IIP) data for Ghana. Ghana participated in the external sector module of EDDI and has benefited extensively from technical assistance in developing and undertaking enterprise surveys of cross-border financial flows and stocks (Foreign Assets and Liabilities Survey (FALS)), with a view to improve the quality of balance of payments statistics and IIP statistics. However, there are still some challenges with the collection and dissemination of private sector flows and the timeliness of the data. Next steps include working with STA on the development of the quarterly survey of cross-border flows. Despite the progress achieved in improving the data sources and compilation techniques, substantial work is still needed to strengthen existing, develop new, data sources to improve the accuracy and reliability of the current, capital, and financial account and enhance the IIP's timeliness. The International Transactions Reporting System (ITRS) should be made a reliable data source to the extent possible and be used at its full potential and as a cost-efficient way to receive information for the current, capital, and financial account. ITRS reporting is being revised to ensure that it serves as: (i) a broad indicator of BOP current, capital, and financial account transactions; and (ii) a data source for transactions of which direct reporting is not feasible.

International Investment Position: illiquid states, liquid elites

- Macroprudential & capital flow management measures
- Cross-border tax justice

Emerging alternatives: Need payment function

- More lending without reducing external liquidity needs
  - does not contribute to development or to financial stability
- Regional financing arrangements and bilateral swaps need to be accompanied with intra-bloc and/or intra-regional payment arrangements that reduce the need for external liquidity
  - Clearinghouses
  - Emerging alternative banks as settlement banks
    - align with G20 fast cross-border payments mandate.
- Intra-regional trade and value-chain policies

Emerging alternatives: complements to Bretton Woods

- IMF/WB should invest its “unused usable currencies” portfolio in a cascade of <u>securities issued by the regional safety nets</u>
- IMF available usable currencies: $200 billion (XDR 152 bn)
  - Investment and endowment accounts only $38 billion (XDR 28.7 bn)
  - Mainly in US corporate bonds, rich country sov’s
    - Less than $3bn in emerging

Conclusions

- De-privatize de-offshorize correspondent banking system with macroprudential and capital flow management measures.
- Link alternative emerging arrangements to payment function.
- IMF should complement regional financing arrangements with its own portfolio investments.

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- Panel 5: Sovereign Debt Resolution
- What are the main drivers of rising debt vulnerabilities and what are the impacts on sustainable development and climate action?
- What has been the experience of countries that have undergone the Common Framework and Global Sustainable Development Roundtable (GSDR)?
- How can international cooperation and coordination be strengthened to support countries in achieving debt sustainability and avoiding prolonged debt crises, and is there any role for the reform of IMF Debt Sustainability Framework?
- What policy actions can member countries take at the national level to break the cycle of repeat build-ups of sovereign debt and debt crises? How can they strengthen debt management frameworks, improve fiscal governance, and enhance transparency and accountability in debt-related transactions?